

**Independent School District No. 727
Big Lake, Minnesota**

Financial Statements

June 30, 2019

bergankDV

Independent School District No. 727
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**Independent School District No. 727
Board of Education and Administration
June 30, 2019**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dan Nygaard	Chairperson	December 31, 2022
Amber Sixberry	Treasurer	December 31, 2020
Tonya Reasoner	Clerk	December 31, 2022
Lenette Brown	Director	December 31, 2022
Mark Hedstrom	Director	December 31, 2020
Tony Scales	Director	December 31, 2020
<u>Administration</u>		
Steve Westerberg	Superintendent	
Angie Manuel, CPA	Director of Business Services	
Robert Dockendorf	High School Principal	
Mark Ernst	Middle School Principal	
Caryl Gordy	Liberty Elementary Principal	
Darren Kern	Independence Elementary Principal	

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of June 30, 2019, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Auditing Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

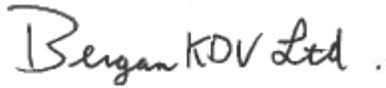
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "BergankDV Ltd." followed by a period.

Minneapolis, Minnesota
November 8, 2019

Independent School District No. 727 Management's Discussion and Analysis

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2018-2019) and the prior year (2017-2018) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2018-2019 fiscal year include the following:

- Net Position increased from \$(15,074,044), to \$(5,753,226), mainly due to decreased TRA and PERA pension expense as required by GASB 73 and 75 pension standards.
- General Fund revenues were \$34,114,957 as compared to expenditures of \$34,054,607 for revenues over expenditures of \$60,350.
- Total General Fund balance increased \$307,357. Unassigned General Fund Balance increased by \$625,860, due to the continued support of additional property tax levy dollars from the November 2015 operating levy referendum. Restricted and Committed/Assigned Fund balances decreased by \$124,193. Nonspendable Fund balance decreased by \$194,310.
- The District decreased its long-term liabilities by \$728,233. The issuance of the 2019A Tax Abatement and Facilities Maintenance Bonds was offset by payments on existing debt obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information which includes the MD&A (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

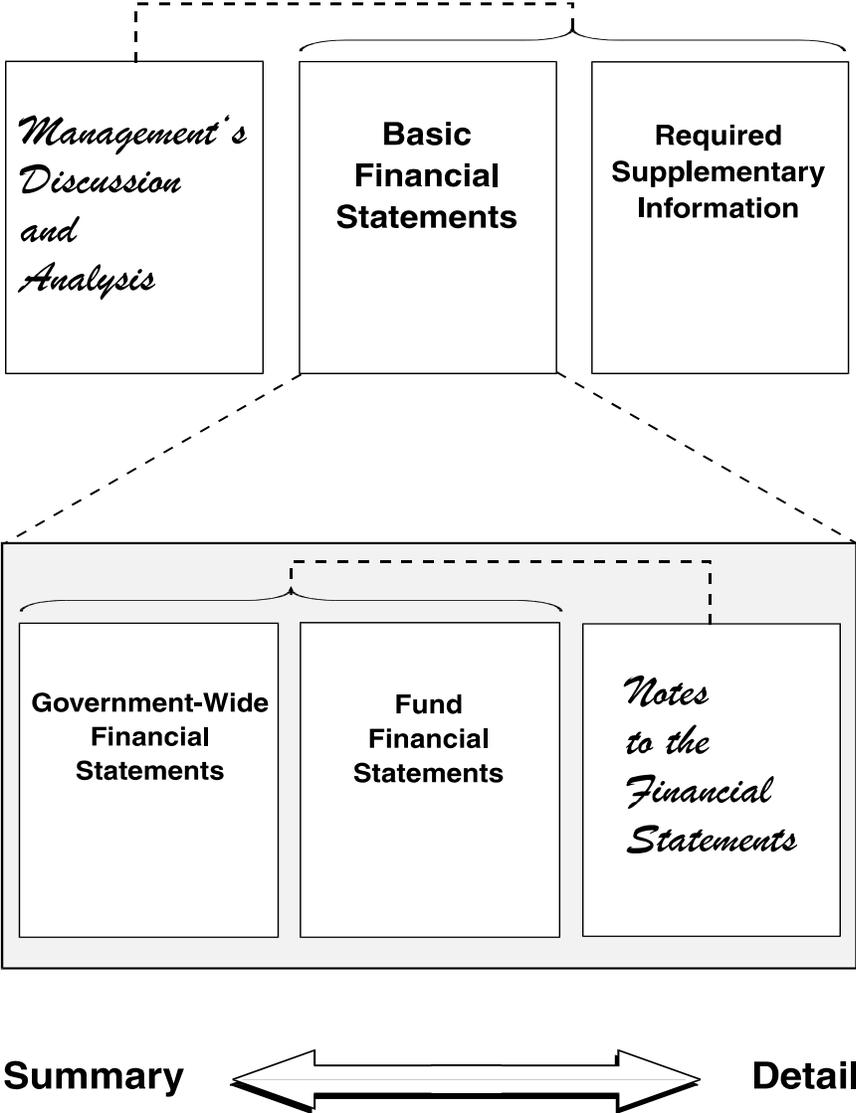
**Independent School District No. 727
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



Independent School District No. 727 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements				
Type of Statements	Government-wide	Governmental Funds	Fund Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds) and the District's Component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	♦ Statement of net position	♦ Balance sheet	♦ Statement of net position	♦ Statement of fiduciary net position
	♦ Statement of activities	♦ Statement of revenues, expenditures, & changes in fund balances	♦ Statement of changes in net position	♦ Statement of changes in fiduciary net assets
			♦ Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's Net Position and how they have changed. Net Position: the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's Net Position are an indicator of whether its financial position is improving or deteriorating, respectively.

Independent School District No. 727 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are shown in one category:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District may establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two types of funds:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**Independent School District No. 727
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined Net Position was (\$5,753,226) on June 30, 2019, an increase of \$9,320,818. (See Table A-1) This increase is mainly the result of decreased TRA and PERA pension expense as required by GASB 73 and 75 pension standards. The 24.76% decrease in deferred outflows is a result of current year pension amortization. Deferred inflows increased 115.36% due to \$21 million increase related to TRA and PERA inflows. And last, total liabilities decreased 34.39% due to a \$36.6 million decrease in net pension liability.

Table A-1

	Governmental Activities		Percentage Change
	2019	2018	
Current and other assets	\$ 29,270,468	\$ 28,379,990	3.14%
Capital and noncurrent assets	54,143,577	52,943,222	2.27%
Total assets	83,414,045	81,323,212	2.57%
Deferred outflows of resources	23,725,892	31,534,889	-24.76%
Current liabilities	9,646,878	9,239,481	4.41%
Long-term liabilities	61,599,331	99,354,616	-38.00%
Total liabilities	71,246,209	108,594,097	-34.39%
Deferred inflows of resources	41,646,954	19,338,048	115.36%
Net position			
Invested in capital assets, net of related debt	14,776,398	13,878,142	6.47%
Restricted	2,565,298	2,277,756	12.62%
Unrestricted	(23,094,922)	(31,229,942)	26.05%
Net position	<u>\$ (5,753,226)</u>	<u>\$ (15,074,044)</u>	<u>61.83%</u>

Changes in Net Position

The District's total revenues were \$42,882,164 for the year ended June 30, 2019. Property taxes, unrestricted state formula aid, and other revenue accounted for 73% of total revenue for the year (See Figure A-3). The remaining 27% came from other program revenues (charges for services, operating and capital grants, and contributions). The large increase in investment earnings is the result of rising interest rates and strong cash flow. A 1.66% decline in enrollment is the cause of the decrease in Unrestricted State Aid.

**Independent School District No. 727
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2 Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30,		Total Percentage Change
	2019	2018	
Revenues			
Program revenues			
Charges for services	\$ 3,413,510	\$ 3,009,603	13.42%
Operating grants and contributions	6,877,142	6,736,365	2.09%
Capital grants and contributions	1,154,314	1,042,397	10.74%
General revenues			
Property taxes	9,023,377	8,796,198	2.58%
Unrestricted state aid	21,928,938	23,066,811	-4.93%
Investment earnings	378,686	210,437	79.95%
Other	106,197	40,445	162.57%
Total revenues	<u>42,882,164</u>	<u>42,902,256</u>	<u>-0.05%</u>
Expenses			
Administration	908,234	1,617,465	-43.85%
District support services	947,451	1,034,779	-8.44%
Regular instruction	11,140,867	21,020,488	-47.00%
Vocational education instruction	421,832	665,608	-36.62%
Special education instruction	4,918,134	7,646,586	-35.68%
Instructional support services	2,121,716	2,904,333	-26.95%
Pupil support services	2,714,276	3,089,239	-12.14%
Sites and buildings	5,229,880	4,831,763	8.24%
Fiscal and other fixed cost programs	152,677	151,341	0.88%
Food service	1,654,943	1,700,163	-2.66%
Community service	2,242,007	2,606,316	-13.98%
Interest and fiscal charges on Long-term liabilities	1,109,329	1,147,193	-3.30%
Total expenses	<u>33,561,346</u>	<u>48,415,274</u>	<u>-30.68%</u>
Increase (decrease) in net position	<u>9,320,818</u>	<u>(5,513,018)</u>	-269.07%
Beginning net position	<u>(15,074,044)</u>	<u>(9,561,026)</u>	
Ending net position	<u><u>\$ (5,753,226)</u></u>	<u><u>\$(15,074,044)</u></u>	

**Independent School District No. 727
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-3 Sources of District Revenue for Fiscal 2019

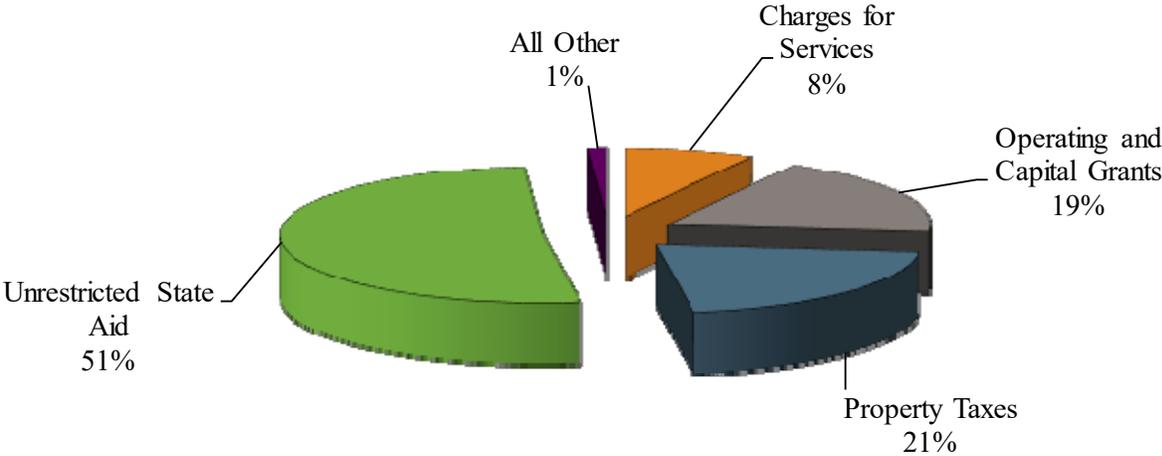
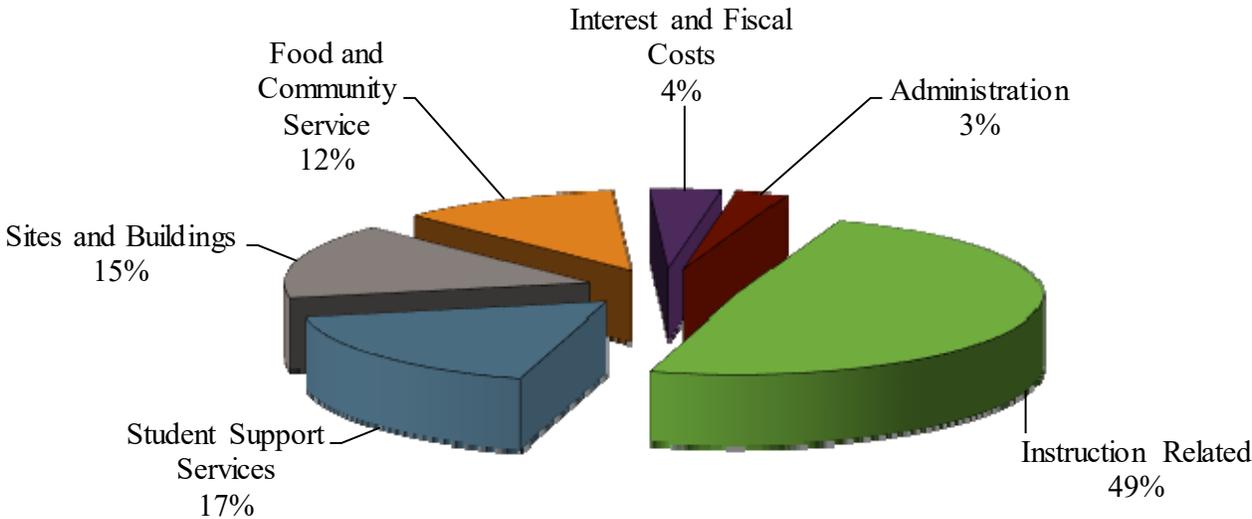


Figure A-4 District Expenses for Fiscal 2019



The total cost of all programs and services was \$33,561,346 for fiscal year 2019. The District's expenses are predominately related to educating and caring for students (66%). (See Figure A-4). Another 4% of expenses are related to interest and fiscal costs for the District's bonds. Another 15% supports the facilities maintenance needs of the entire District. Only 3% of costs are for administration. Finally, 12% of total expenses are for food and community service programs.

**Independent School District No. 727
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all governmental activities this year was \$33,561,346.

- Some of the cost was paid by the users of the District's programs (\$3,413,510).
- The federal and state governments subsidized certain programs with grants and contributions (\$8,031,456).
- Most of the District's costs (\$31,437,198); however, were paid for by District taxpayers and taxpayers of the State of Minnesota.

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 66% of those resources are spent on instruction and support services associated with education.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services			Net Cost of Services		
	2019	2018	% Change	2019	2018	% Change
Administration	\$ 908,234	\$ 1,617,465	-43.85%	\$ 908,234	\$ 1,617,465	-43.85%
District support services	947,451	1,034,779	-8.44%	947,113	1,034,779	-8.47%
Regular instruction	11,140,867	21,020,488	-47.00%	7,679,045	17,643,774	-56.48%
Vocational education instruction	421,832	665,608	-36.62%	370,189	608,489	-39.16%
Special education instruction	4,918,134	7,646,586	-35.68%	1,764,965	4,730,137	-62.69%
Instructional support services	2,121,716	2,904,333	-26.95%	1,680,005	2,469,594	-31.97%
Pupil support services	2,714,276	3,089,239	-12.14%	2,690,212	3,069,392	-12.35%
Sites and buildings	5,229,880	4,831,763	8.24%	4,603,899	4,339,309	6.10%
Fiscal and other fixed cost programs	152,677	151,341	0.88%	152,677	151,341	0.88%
Food service	1,654,943	1,700,163	-2.66%	100,251	138,423	-27.58%
Community service	2,242,007	2,606,316	-13.98%	248,353	677,013	-63.32%
Interest and fiscal charges on long-term liabilities	1,109,329	1,147,193	-3.30%	1,109,329	1,147,193	-3.30%
Total	\$33,561,346	\$48,415,274	-30.68%	\$22,254,272	\$37,626,909	-40.86%

**Independent School District No. 727
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$14,972,959. Revenues for the District's governmental funds were \$43,988,706 while total expenditures were \$48,241,360, for a decrease of \$4,252,654. After other financing sources of \$4,129,998, the combined fund balance decreased \$122,656. This decrease is the result of projects completed from the May 2016 building referendum bond proceeds and projects from the issuance of the District's tax abatement and facilities maintenance bonds.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

The majority of General Fund revenue is generated by state general education aid. The basic formula allowance in 2019 was \$6,312 per adjusted marginal cost per pupil unit (AMCPU). Other factors that influence the general education aid formula include operating referendum allowance, age of school buildings, transportation sparsity index, percent of eligible free and reduced students, number of English Learner (EL) students, number of Gifted and Talented students, and number of open enrolled students in and out of the District. Total general education aid was \$24,357,566, which represents 72% of total General Fund revenue. The other major General Fund revenue is state special education aid. Total special education aid in 2019 was \$2,714,202, 8% of total General Fund revenue. Other state formulas then determine what portion of the general fund revenue will be provided by property taxes. Property taxes totaled \$3,975,596, 12% of total General Fund revenue. After factoring in general education aid, special education aid and property taxes, which are all formula driven, only 8% of General Fund revenues are generated by other miscellaneous state aids, aid from the federal government and local revenues such as fees or sales.

GENERAL FUND - ENROLLMENT

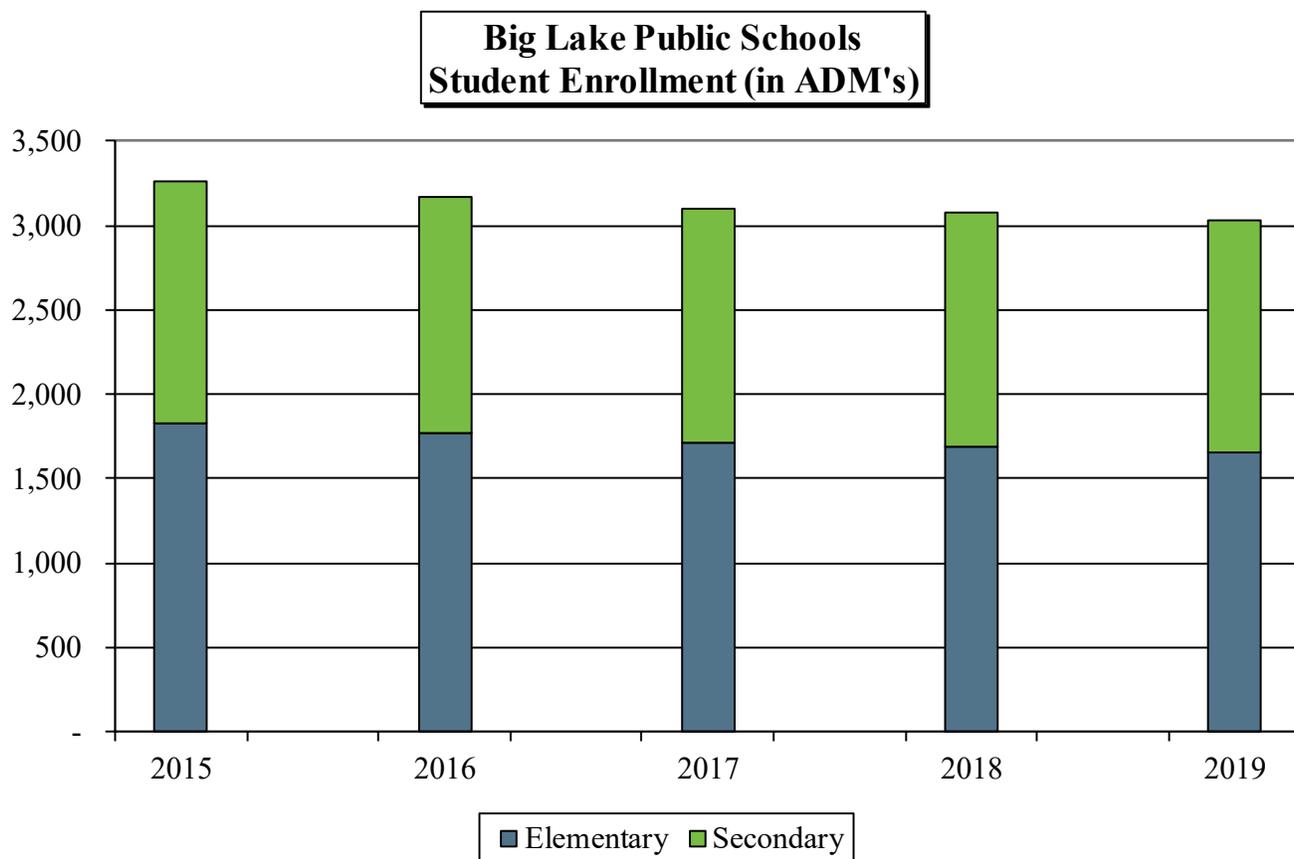
Enrollment is a critical factor in determining revenue with approximately 85% of General Fund revenue being determined by student counts. The chart on the next page indicates that enrollment has declined for the past four years. School choice, such as open enrollment, charter schools, online learning, private schools, and home schooling are negatively impacting enrollment.

**Table A-4
Five Year Enrollment Trend
Average Daily Membership (ADM)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Elementary	1,827	1,773	1,718	1,686	1,649
Secondary	1,432	1,394	1,379	1,391	1,377
Total	<u>3,259</u>	<u>3,167</u>	<u>3,097</u>	<u>3,077</u>	<u>3,026</u>

**Independent School District No. 727
Management's Discussion and Analysis**

GENERAL FUND – ENROLLMENT (CONTINUED)



GENERAL FUND – REVENUES/EXPENDITURES

The table below presents a summary of General Fund Revenues:

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30,		Increase	Percent
	2019	2018	(Decrease)	
Local sources				
Property taxes	\$ 3,975,596	\$ 4,048,135	\$ (72,539)	-1.79%
Investment earnings	194,662	88,879	105,783	119.02%
Other	1,238,945	818,363	420,582	51.39%
State sources	28,288,383	28,172,631	115,752	0.41%
Federal sources	417,371	369,680	47,691	12.90%
Total	\$ 34,114,957	\$ 33,497,688	\$ 617,269	1.84%

**Independent School District No. 727
Management's Discussion and Analysis**

GENERAL FUND – REVENUES/EXPENDITURES (CONTINUED)

Revenues from the General Fund totaled \$34,114,957, an increase of 1.84% from the prior year. Property taxes decreased in the general fund due a lower general fund Long-Term Facilities Maintenance (LTFM) levy. Investment earnings increased due to more favorable investment rates of return and strong cash flow. Other revenues increased due to special education (SPED) costs reimbursed by the District's SPED cooperative for programs serviced by the District. Increased federal special education revenue from the District's SPED cooperative resulted in the increase of federal funds. Last, despite an increase in the general education formula allowance, state sources of revenue remained relatively the same as last year due to declining enrollment.

The following schedule presents a summary of General Fund Expenditures:

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30,		Increase	Percent
	2019	2018	(Decrease)	
Salaries	\$ 19,608,149	\$ 18,722,682	\$ 885,467	4.73%
Employee benefits	7,204,622	6,825,088	379,534	5.56%
Purchased services	5,098,117	4,764,931	333,186	6.99%
Supplies and materials	1,585,267	1,199,497	385,770	32.16%
Capital expenditures	381,524	955,138	(573,614)	-60.06%
Debt service	57,458	-	57,458	N/A
Other expenditures	119,470	118,199	1,271	1.08%
Total	\$ 34,054,607	\$ 32,585,535	\$ 1,469,072	4.51%

Total General Fund expenditures increased 4.51% from the prior year. Employee salaries and benefits increased 4.73% and 5.56%, respectively. Despite decreased enrollment, the District was required to add special education staff due to higher caseloads. The purchased services increase is a result of transportation costs and a large weather related insurance claim. Supplies and materials increased due to planned technology purchases as well as a two year buy of curriculum materials. In 17-18, there was a large technology infrastructure project affecting capital expenditures that was not present in 18-19.

Total General Fund balance increased \$307,357. Unassigned General Fund balance increased by \$625,860, due to the continued support of additional property tax levy dollars from the November 2015 operating levy referendum. Restricted and Committed/Assigned Fund balances decreased by \$124,193. Nonspendable Fund balance decreased by \$194,310. The Unassigned Fund Balance, or fund balance available for operations, is 19.8% of total General Fund expenditures.

**Independent School District No. 727
Management's Discussion and Analysis**

GENERAL FUND – REVENUES/EXPENDITURES (CONTINUED)

Fund balance is the single best measure of overall financial health. It is the goal of the Big Lake Board of Education to maintain an unassigned fund balance of 8% of general fund operating expenditures. For the fiscal year ended June 30, 2019, the Big Lake School District is in compliance with that fund balance goal.

General Fund Budgetary Highlights

Actual revenues were \$403,643 over the final budget, a 1.2% variance. The variance occurred due to more than expected state special education revenue and better than expected investment earnings. Actual expenditures were \$504,756 under budget, a 1.4% variance. The expenditure variance is mainly the result of less than expected personnel costs.

The General Fund budget is adjusted several times throughout the year for changes in enrollment, changes in special education funding assumptions, and expenditure changes such as staffing costs, transportation, and utilities. In fiscal year 2019, revenue was adjusted for increased enrollment, changes in special education funding, and proceeds from a large weather related insurance claim. As for expenditures, the budget was changed throughout the year for changes in staffing and benefit assumptions, increased utilities expenditures from a cold and snowy winter, and establish expenditure budgets for a large weather related insurance claim.

DEBT SERVICE FUND

The Debt Service Fund revenues exceeded expenditures and other financing sources by \$179,343 in 2018-2019. Part of the bond proceeds from the 2019A Tax Abatement and Facilities Maintenance Bonds were deposited to the debt service fund, per bond covenants, to pay the fiscal 19-20 interest payments due on the bonds. Investment earnings and strong property tax collections also contributed to the surplus.

CAPITAL PROJECTS FUND

In 2016-2017, the District issued \$9,080,000 General Obligation School Building Bonds to fund various improvements throughout the District. The largest project included the addition of and upgrades to athletic fields and concession stands. Other projects include establishing secured entrances at all four school buildings, improving sound and lighting in the high school auditorium, replace flooring at two buildings, pool upgrades, adding parking lots to the athletic fields, and playground expansion at both elementary sites. The improvements are a result of the successful May 2016 referendum. During 18-19, many of the projects from the May 2016 referendum were completed.

In 2017-2018 the District issued \$3,900,000 in General Obligation Facilities Maintenance Bonds to fund more deferred maintenance projects scheduled for the summer of 2018 and 2019. The planned projects include replacing sections of roofs at the High School, Middle School, and Independence Elementary, and replacing windows and doors at the Middle School. These projects were substantially completed in 2018-2019.

**Independent School District No. 727
Management's Discussion and Analysis**

CAPITAL PROJECTS FUND (CONTINUED)

In 2018-2019, the District issued \$3,750,000 in Tax Abatement and Facilities Improvement Bonds. This bond issue funded major improvements to parking lots across the entire District. The District also continued roof replacement at Independence Elementary and other deferred maintenance and paving projects as identified in the Districts 10 year Long Term Facilities Maintenance (LTFM) Plan.

OTHER NON-MAJOR FUNDS

The Post Employment Benefits Debt Service fund was created in 2008-2009 to account for the levy revenues and repayment of OPEB bonds that were issued in June 2009. These revenues and expenditures are required by the State of Minnesota to be reported in a separate fund. Any surplus in this fund is held for future reductions in the debt service levy at the end of the bond payment period.

The Food Service Fund balance increased \$22,520 for an ending fund balance of \$210,457. The ending fund balance represents slightly over one month of expenditures. The increase in 2018-2019 was the result of increased breakfast participation and less than expected personnel costs.

The Community Service Fund balance decreased \$ 56,936 in 2018-2019 for a combined fund balance of \$408,101. The decrease is a planned spenddown of fund balance to keep fees level for community members. The ending fund balance represents approximately 17% of expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested approximately \$90.9 million in a broad range of capital assets, including school buildings, athletic facilities and fields, computers, and other technology equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$2.3 million.

**Table A-7
Capital Assets (Net of Accumulated Depreciation)**

	2019	2018	Percentage Change
Land	\$ 784,389	\$ 784,389	0.00%
Construction on progress	3,414,985	1,458,129	134.20%
Land improvements	4,944,879	4,760,375	3.88%
Buildings and improvements	42,177,428	43,148,846	-2.25%
Equipment	2,821,896	2,791,483	1.09%
Total	\$ 54,143,577	\$ 52,943,222	2.27%

**Independent School District No. 727
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Each year, departments review their machinery and equipment capital inventories. Disposals are then accounted for accordingly as items are sold or deemed obsolete. The overall increase in capital assets is a result of construction projects from the District's 2017B Facilities Maintenance Bonds and 2019A Tax Abatement and Facilities Maintenance Bonds.

Construction – Next Five Years

With the passage of the new long-term facilities maintenance revenue (LTFM) program by the Minnesota Legislature in June, 2015, the District has been issuing facilities maintenance bonds every two years. The District expects to issue another set of facilities maintenance bonds in January 2020 to finance the replacement of HVAC systems and boilers at the Middle School and Independence Elementary.

Long-Term Liabilities

At year-end, the District had \$44,112,198 in total long-term debt, a decrease of 1.62% from last year, as shown in Table A-8. Included in this total, the District has \$386,508 in severance liabilities. More detailed information about long-term liabilities can be found in Note 4 to the financial statements.

**Table A-8
Long-Term Liabilities**

	Total Cost of Services		Percentage Change
	2019	2018	
General obligation bonds	\$ 41,505,000	\$ 41,985,000	-1.14%
Premium	1,878,172	2,122,541	-11.51%
Capital lease	166,025	222,520	-25.39%
Severance payable	386,508	379,805	1.76%
Compensated absences payable	176,493	130,565	35.18%
Total	<u>\$ 44,112,198</u>	<u>\$ 44,840,431</u>	-1.62%

The capital lease is a technology lease with a term of four years; therefore, the total amount decreased 25% from 17-18 to 18-19. Compensated absences increased 35% due to a change in interpretation of union contract language for vacation leave for certain union groups and employees.

Independent School District No. 727 Management's Discussion and Analysis

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-2019 General Fund balance closed the year at \$8,659,185 with the Unassigned General Fund balance, or fund balance available for operations, closing at \$6,748,712, an increase of \$625,860. The Unassigned General Fund balance represents 19.8% of total General Fund expenditures. The revenue generated from the successful November 2015 operating referendum remains critical to the District in keeping class sizes low and being able to offer new programming. An example of new programming is in 2019-2020, Independence Elementary became Independence STEM Elementary. An investment in technology and additional staffing will allow increased STEM programming for students in grades 3-5.

The most important factor bearing on the District's future is enrollment. For the first time since 2006-2007, the District experienced an increase in fall enrollment from the previous spring. In the fall of 2019, the District increased 85 students from the previous spring. Population growth and substantial marketing of District programming contributed to the growth. 2019-2020 general education aid will increase significantly from the higher than expected students and 2% increase in formula allowance granted by the Legislature.

Another key factor bearing on the District's future is state special education funding. The 2019 Legislature granted increased special education funding to all school districts in the state of Minnesota to alleviate the general education cross-subsidy of special education costs. The Big Lake School District has one of the highest general education cross-subsidy of special education, and this additional revenue will greatly assist the District in financing special education costs.

Even with the increased revenue from enrollment and special education funding, concern does still exist with the Minnesota Legislature granting less than inflationary increases in general education funding. A strong employment market has resulted in challenges in hiring teachers, and the District is committed to hiring quality teachers at competitive pay rates. Districts, such as Big Lake, will have to continue to rely on operating referendums to fund basic operations of the school district, unless the Legislature grants general education inflationary increases and continues to work on fully funding special education costs.

The District remains committed to strive to maintain its long-standing commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Business Services, Independent School District 727, 501 Minnesota Avenue, Big Lake, Minnesota, 55309-9246.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 727
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and investments (including cash equivalents)	\$ 20,390,918
Current property taxes receivable	4,720,613
Delinquent property taxes receivable	155,849
Accounts receivable	208,257
Interest receivable	73,328
Due from Department of Education	2,785,819
Due from Federal Government through Department of Education	135,131
Due from other Minnesota school districts	395,799
Due from other governmental units	212,818
Inventory	35,087
Prepaid items	156,849
Capital assets, not being depreciated	
Land	784,389
Construction in progress	3,414,985
Capital assets, net of accumulated depreciation	
Land improvements	4,944,879
Buildings	42,177,428
Machinery and equipment	2,821,896
Total assets	<u>83,414,045</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	23,664,167
Deferred outflows of resources related to OPEB	61,725
Total deferred outflows of resources	<u>23,725,892</u>
 Total assets and deferred outflows of resources	 <u>\$ 107,139,937</u>
Liabilities	
Accounts and contracts payable	\$ 1,161,980
Salaries and benefits payable	3,172,400
Interest payable	610,559
Due to other Minnesota school districts	121,004
Due to other governmental units	8,287
Unearned revenue	92,500
Equity interest in joint venture	23,043
Bond principal payable	
Payable within one year	4,395,000
Payable after one year	38,988,172
Capital lease payable	
Payable within one year	54,304
Payable after one year	111,721
Compensated absences payable	
Payable after one year	176,493
Severance payable	
Payable within one year	7,801
Payable after one year	378,707
Net other post employment benefits (OPEB) liability	1,081,648
Net pension liability	20,862,590
Total liabilities	<u>71,246,209</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	31,542,749
Deferred inflows of resources related to OPEB	526,517
Property taxes levied for subsequent year's expenditures	9,577,688
Total deferred inflows of resources	<u>41,646,954</u>
Net Position	
Net investment in capital assets	14,776,398
Restricted for	
Debt service	879,382
Capital projects	481,127
Other purposes	1,204,789
Unrestricted	(23,094,922)
Total net position	<u>(5,753,226)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 107,139,937</u>

Independent School District No. 727
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 908,234	\$ -	\$ -	\$ -	\$ (908,234)
District support services	947,451	-	338	-	(947,113)
Elementary and secondary regular instruction	11,140,867	411,220	2,453,449	591,159	(7,685,039)
Vocational education instruction	421,832	-	51,643	-	(370,189)
Special education instruction	4,918,134	465,241	2,831,814	-	(1,621,079)
Instructional support services	2,121,716	-	441,711	-	(1,680,005)
Pupil support services	2,714,276	6,803	17,261	-	(2,690,212)
Sites and buildings	5,229,880	18,088	44,738	563,155	(4,603,899)
Fiscal and other fixed cost programs	152,677	-	-	-	(152,677)
Food service	1,654,943	865,343	689,349	-	(100,251)
Community education and services	2,242,007	1,646,815	346,839	-	(248,353)
Interest and fiscal charges on long-term debt	1,109,329	-	-	-	(1,109,329)
Total governmental activities	\$ 33,561,346	\$ 3,413,510	\$ 6,877,142	\$ 1,154,314	(22,116,380)
General revenues					
Taxes					
Property taxes, levied for general purposes					3,964,620
Property taxes, levied for community service					365,063
Property taxes, levied for debt service					4,693,694
State aid-formula grants					21,928,938
Other general revenues					42,157
Investment income					378,686
Gain of sale of assets					64,040
Total general revenues					<u>31,437,198</u>
Change in net position					<u>9,320,818</u>
Net position - beginning					<u>(15,074,044)</u>
Net position - ending					<u>\$ (5,753,226)</u>

Independent School District No. 727
Balance Sheet - Governmental Funds
June 30, 2019

	General	Capital Projects	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 10,495,899	\$ 5,090,100	\$ 3,625,096	\$ 1,179,823	\$ 20,390,918
Current property taxes receivable	2,038,010	-	2,315,193	367,410	4,720,613
Delinquent property taxes receivable	62,284	-	79,938	13,627	155,849
Accounts receivable	149,380	800	-	58,077	208,257
Interest receivable	68,610	4,718	-	-	73,328
Due from Department of Education	2,646,114	-	105,679	34,026	2,785,819
Due from Federal Government through Department of Education	116,943	-	-	18,188	135,131
Due from other Minnesota school districts	386,781	-	-	9,018	395,799
Due from other governmental units	158,013	-	39,939	14,866	212,818
Inventory	-	-	-	35,087	35,087
Prepaid items	156,849	-	-	-	156,849
	<u>\$ 16,278,883</u>	<u>\$ 5,095,618</u>	<u>\$ 6,165,845</u>	<u>\$ 1,730,122</u>	<u>\$ 29,270,468</u>
Liabilities					
Accounts and contracts payable	\$ 305,500	\$ 802,473	\$ -	\$ 54,007	\$ 1,161,980
Salaries and benefits payable	3,059,193	-	-	113,207	3,172,400
Due to other Minnesota school districts	121,004	-	-	-	121,004
Due to other governmental units	7,892	-	-	395	8,287
Unearned revenue	24,046	-	-	68,454	92,500
Severance payable	7,801	-	-	-	7,801
Total liabilities	<u>3,525,436</u>	<u>802,473</u>	<u>-</u>	<u>236,063</u>	<u>4,563,972</u>
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	62,284	-	79,938	13,627	155,849
Property taxes levied for subsequent year's expenditures	4,031,978	-	4,781,237	764,473	9,577,688
Total deferred inflows of resources	<u>4,094,262</u>	<u>-</u>	<u>4,861,175</u>	<u>778,100</u>	<u>9,733,537</u>
Fund Balances					
Nonspendable	156,849	-	-	35,087	191,936
Restricted	685,647	4,293,145	1,304,670	680,872	6,964,334
Committed	603,480	-	-	-	603,480
Assigned	464,497	-	-	-	464,497
Unassigned	6,748,712	-	-	-	6,748,712
Total fund balances	<u>8,659,185</u>	<u>4,293,145</u>	<u>1,304,670</u>	<u>715,959</u>	<u>14,972,959</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,278,883</u>	<u>\$ 5,095,618</u>	<u>\$ 6,165,845</u>	<u>\$ 1,730,122</u>	<u>\$ 29,270,468</u>

Independent School District No. 727
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2019

Total fund balances - governmental funds	\$ 14,972,959
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	90,940,353
Less accumulated depreciation	(36,796,776)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable (net of premiums)	(43,383,172)
Capital lease payable	(166,025)
Compensated absences payable	(176,493)
Severance payable	(378,707)
Net pension liability	(20,862,590)
OPEB obligation	(1,081,648)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	23,664,167
Deferred inflows of resources related to pensions	(31,542,749)
Deferred outflows of resources related to OPEB	61,725
Deferred inflows of resources related to OPEB	(526,517)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	155,849
Equity interest in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets (liabilities).	
Equity interest in joint venture - Wright Technical Center	(23,043)
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	<u>(610,559)</u>
Total net position - governmental activities	<u><u>\$ (5,753,226)</u></u>

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	General	Capital Projects	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 3,975,596	\$ -	\$ 4,326,393	\$ 752,167	\$ 9,054,156
Other local and county revenues	1,354,599	101,331	60,413	1,713,852	3,230,195
Revenue from state sources	28,288,383	-	1,059,637	390,095	29,738,115
Revenue from federal sources	417,371	-	-	592,810	1,010,181
Sales and other conversion of assets	79,008	-	-	877,051	956,059
Total revenues	<u>34,114,957</u>	<u>101,331</u>	<u>5,446,443</u>	<u>4,325,975</u>	<u>43,988,706</u>
Expenditures					
Current					
Administration	1,247,091	-	-	-	1,247,091
District support services	1,002,615	-	-	-	1,002,615
Elementary and secondary regular instruction	15,319,976	-	-	-	15,319,976
Vocational education instruction	525,431	-	-	-	525,431
Special education instruction	6,547,683	-	-	-	6,547,683
Instructional support services	2,323,086	-	-	-	2,323,086
Pupil support services	2,965,035	-	-	-	2,965,035
Sites and buildings	3,505,499	377,725	-	-	3,883,224
Fiscal and other fixed cost programs	152,677	-	-	-	152,677
Food service	-	-	-	1,536,519	1,536,519
Community education and services	26,532	-	-	2,418,531	2,445,063
Capital outlay					
Elementary and secondary regular instruction	169,874	-	-	-	169,874
Special education instruction	3,432	-	-	-	3,432
Instructional support services	83,761	-	-	-	83,761
Sites and buildings	124,457	4,105,238	-	-	4,229,695
Community education and services	-	-	-	13,218	13,218
Debt service					
Principal	56,495	-	3,880,000	350,000	4,286,495
Interest and fiscal charges	963	-	1,467,103	38,419	1,506,485
Total expenditures	<u>34,054,607</u>	<u>4,482,963</u>	<u>5,347,103</u>	<u>4,356,687</u>	<u>48,241,360</u>
Excess of revenues over (under) expenditures	60,350	(4,381,632)	99,340	(30,712)	(4,252,654)
Other Financing Sources					
Proceeds from sale of capital assets	64,040	-	-	-	64,040
Bond issuance	-	3,669,997	80,003	-	3,750,000
Bond premium	-	132,991	-	-	132,991
Insurance recovery	182,967	-	-	-	182,967
Total other financing sources	<u>247,007</u>	<u>3,802,988</u>	<u>80,003</u>	<u>-</u>	<u>4,129,998</u>
Net change in fund balances	307,357	(578,644)	179,343	(30,712)	(122,656)
Fund Balances					
Beginning of year	<u>8,351,828</u>	<u>4,871,789</u>	<u>1,125,327</u>	<u>746,671</u>	<u>15,095,615</u>
End of year	<u>\$ 8,659,185</u>	<u>\$ 4,293,145</u>	<u>\$ 1,304,670</u>	<u>\$ 715,959</u>	<u>\$ 14,972,959</u>

See notes to financial statements.

**Independent School District No. 727
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2019**

Net change in fund balances - total governmental funds \$ (122,656)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	3,904,988
Depreciation expense	(2,301,501)
Loss on disposal	(403,132)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (45,928)

Severance payments are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 1,098

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on the full accrual perspective.
Pension expense 7,599,211

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities. 4,286,495

OPEB obligations are recognized when paid in the governmental funds but recognized when incurred in the Statement of Activities. (52,811)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 19,796

Proceeds from the sale of bonds are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net position in the Statement of Activities. (3,750,000)

Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the government-wide financial statements.
Debt issuance premium 244,369

Net loss from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds. (28,332)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (30,779)

Change in net position - governmental activities \$ 9,320,818

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 3,963,813	\$ 3,936,303	\$ 3,975,596	\$ 39,293
Other local and county revenues	665,189	1,142,747	1,354,599	211,852
Revenue from state sources	27,891,335	27,962,878	28,288,383	325,505
Revenue from federal sources	529,347	573,411	417,371	(156,040)
Sales and other conversion of assets	78,050	95,975	79,008	(16,967)
Total revenues	<u>33,127,734</u>	<u>33,711,314</u>	<u>34,114,957</u>	<u>403,643</u>
Expenditures				
Current				
Administration	1,290,386	1,257,349	1,247,091	(10,258)
District support services	1,165,397	1,099,555	1,002,615	(96,940)
Elementary and secondary regular instruction	15,205,600	15,263,143	15,319,976	56,833
Vocational education instruction	563,269	544,220	525,431	(18,789)
Special education instruction	6,800,311	6,858,820	6,547,683	(311,137)
Instructional support services	2,401,633	2,345,238	2,323,086	(22,152)
Pupil support services	2,939,085	3,029,545	2,965,035	(64,510)
Sites and buildings	3,256,399	3,473,328	3,505,499	32,171
Fiscal and other fixed cost programs	154,086	154,086	152,677	(1,409)
Community education and services	-	-	26,532	26,532
Capital outlay				
Administration	1,000	-	-	-
District support services	44,000	4,000	-	(4,000)
Elementary and secondary regular instruction	211,714	209,239	169,874	(39,365)
Special education instruction	-	3,432	3,432	-
Instructional support services	234,442	168,745	83,761	(84,984)
Sites and buildings	65,000	91,205	124,457	33,252
Debt service				
Principal	56,495	56,495	56,495	-
Interest and fiscal charges	963	963	963	-
Total expenditures	<u>34,389,780</u>	<u>34,559,363</u>	<u>34,054,607</u>	<u>(504,756)</u>
Excess of revenues under expenditures	(1,262,046)	(848,049)	60,350	908,399
Other Financing Sources				
Proceeds from sale of capital assets	45,000	64,040	64,040	-
Insurance recoveries	-	193,981	182,967	(11,014)
Total other financing sources (uses)	<u>45,000</u>	<u>258,021</u>	<u>247,007</u>	<u>(11,014)</u>
Net change in fund balances	<u>\$ (1,217,046)</u>	<u>\$ (590,028)</u>	307,357	<u>\$ 897,385</u>
Fund Balance				
Beginning of year			<u>8,351,828</u>	
End of year			<u>\$ 8,659,185</u>	

See notes to financial statements.

Independent School District No. 727
Statement of Fiduciary Net Position
Year Ended June 30, 2019

	Agency Fund	Scholarship Trust Fund	Other Post Employment Benefits Irrevocable Trust Fund
Assets			
Current			
Deposits	\$ 1,769	\$ 15,650	\$ 790,760
Investments			
Government obligations	-	-	20,000
Exchange traded funds	-	-	440,652
MN Trust limited term duration	-	-	344,582
MN Trust investment shares portfolio	-	-	215,485
Total investments	-	-	1,020,719
Interest receivable	-	-	17,812
Total assets	\$ 1,769	\$ 15,650	\$ 1,829,291
Liabilities			
Accounts payable	\$ 1,769	\$ -	62,953
Benefits payable	-	-	29,373
Total liabilities	\$ 1,769	\$ -	\$ 92,326
Net Position			
Held in trust for scholarships		\$ 15,650	\$ -
Held in trust for OPEB		-	1,736,965
Total assets held in trust		\$ 15,650	\$ 1,736,965

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2019

	Scholarship Trust Fund	Other Post Employment Benefits Irrevocable Trust Fund
Additions		
Contributions	\$ 25,600	\$ -
Investment income	-	62,956
Total additions	25,600	62,956
Deductions		
Scholarships	9,950	-
Benefit payments	-	88,654
Miscellaneous expense	-	3,921
Total deductions	9,950	92,575
Change in net position	15,650	(29,619)
Net Position		
Beginning of year	-	1,766,584
End of year	\$ 15,650	\$ 1,736,965

See notes to financial statements.

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Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a six member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control; therefore, separate audited financial statements have not been issued.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues; instead, they are properly reported as general revenues.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Trust Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement of Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, G.O. bond principal, interest, and related costs.

Capital Projects Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs, or other similar services.

OPEB Debt Service Fund – This fund is used to account for the financial resources relating to the bond issued for post employment benefits.

Fiduciary Funds:

Private Purpose Trust Fund – This fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

OPEB Irrevocable Trust Fund – This fund is used to account for the financial resources relating to post employment benefits.

Agency Fund – This fund is used to account for assets held by a governmental unit as an agent for individuals, private organization, other governmental units, and other funds.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described on the following page.

District Funds Other than OPEB Trust Fund

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, corporate bonds, commercial paper, and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by investment pools are measured at amortized cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits, and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Short-term, highly liquid debt instruments (including certificates of deposit, banker's acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Cash and investments at June 30, 2019, were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota Trust (MNTrust) Term Series, shares in the MNTrust Investment Shares Portfolio, MN Trust Limited Term Duration, and government securities. In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from MNTrust. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

OPEB Trust Fund

These funds represent investments administered by the District's OPEB Trust Fund investment managers. As of June 30, 2019, they were comprised of shares in the MN Trust Investment Shares Portfolio, MN Trust Limited Term Duration, government obligations and Vanguard Total Stock Market Exchange Traded Funds. The District's investment policy, discussed previously, extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

The OPEB Trust Agreement indicates permitted investments include one or more series of MN Trust shares relating to a separate portfolio of investments, or from multi-class shares of MN Trust within the same portfolio.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2018, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in the fiscal year 2019. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Sherburne County is the collecting agency for the levy and remits the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Net Position and fund balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

L. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

District employees earn vacation days based upon the number of completed years of service. The District compensates employees for unused vacation upon termination of employment.

The District maintains various sick leave plans for its employee groups. All District employees are entitled to sick leave at various rates. Sick leave may be accumulated to a maximum of 120 days for all employee groups. Unused sick leave is a factor in the calculation of an employee's severance pay upon retirement under some collective bargaining agreements. The amount of compensated absences is recorded in the Statement of Net Position.

N. Severance Benefits

The District maintains various severance plans for its employee groups. Severance benefits consist of lump sum early retirement incentive payments, severance based upon experience and sick leave balances.

O. Post Employment Health Benefits

Under the terms of certain collectively bargained employment contracts, the District is required to pay the hospital/medical insurance premiums and dental insurance premiums for retired employees until they reach specified age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

Q. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2019.

S. Fund Equity

1. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through enabling legislation.
- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.
- Assigned Fund Balances – The School Board delegates to the Director of Business Services, after consultation with the Finance Committee, the authority to assign fund balances for specific purposes.
- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

The District's policy is to spend resources from fund balance classifications in the following order (first to last) if resources from more than one fund balance classification could be spent: restricted, committed, assigned, and unassigned.

2. Minimum Fund Balance Policy

The District will strive to maintain a minimum General Fund unassigned fund balance of 8% of General Fund operating expenditures. When the District is projected to drop below its minimum fund balance, District administration shall initiate measures to either generate additional revenue or to reduce expenditures through a budget reduction plan, or a combination of both.

Independent School District No. 727
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

V. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Director of Business Services submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Director of Business Services is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Food Service, Community Service, Capital Projects, and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

District Funds Other than OPEB Trust Fund

Custodial Credit Risk – Deposits: For deposits, this is the risk in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy that requires the District's deposits be collateralized by obtaining collateral or bond for all uninsured amounts on deposit and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

Independent School District No. 727
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

District Funds Other than OPEB Trust Fund (Continued)

The District's pooled deposits had a book balance as follows:

Checking	\$ 731,507
Certificates of deposit	<u>5,793,600</u>
Total deposits	<u><u>\$ 6,525,107</u></u>

Bond Proceeds

The District's nonpooled deposits related to the 2016A, 2016B, and 2017A Bonds had a book balance as follows:

Certificates of deposit	<u><u>\$ 400,000</u></u>
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OPEB Trust Fund

As of June 30, 2019, the District's OPEB Trust Fund has the following non pooled deposits:

Certificates of deposit	<u><u>\$ 790,760</u></u>
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B. Investments

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy refers to *Minnesota Statutes* governing investments. Statutes limits investments in the top two ratings issued by nationally recognized statistical rating organizations. The policy also states the District will prequalify the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. As of June 30, 2019, the District's investments were rated in the table on following page.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy states the District will diversify the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. Diversification strategies shall be determined and revised periodically by the investment officer for all funds as allowed by law.

Interest Rate Risk: This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states interest rate risk will be managed by structuring the investment portfolio, so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio.

Independent School District No. 727
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk – Investments: For an investment, this is the risk in the event of the failure of the counterparty; the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states an annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. In addition, the School Board shall annually designate one or more official depositories for District funds. The Finance Manager of the District may also exercise the power of the School Board to designate a depository.

As of June 30, 2019, the District had the following investments:

Investment Type	Fair Value	Investment Maturities		S & P Credit Ratings
		Less Than 1 Year	1 to 3 Years	
Pooled				
MN Trust Term Series	\$ 3,700,000	\$ 3,700,000	\$ -	AAA
Treasury Notes	609,654	609,654	-	AA+
Negotiable CDs	740,704	493,228	247,476	NR
MN Trust Limited Term Duration	1,040,600	1,040,600	-	AAA
MN Trust Investment Shares Portfolio	2,694,799	2,694,799	-	AAA
Total pooled investments	<u>8,785,757</u>	<u>8,538,281</u>	<u>247,476</u>	
Non Pooled				
Bond Proceeds Investments				
MN Trust Investment Shares Portfolio	1,440,900	1,440,900	-	AAA
MN Trust Term Series	3,250,000	3,250,000	-	AAA
Total 2015A, 2015B and 2017B Bonds	<u>4,690,900</u>	<u>4,690,900</u>	<u>-</u>	
OPEB Investments				
Equity	440,652	440,652	-	NR
Government Obligations	20,000	20,000	-	NR
MN Trust Limited Term Duration	344,582	344,582	-	AAA
MN Trust Investment Shares Portfolio	215,485	215,485	-	AAA
Total OPEB Investments	<u>1,020,719</u>	<u>1,020,719</u>	<u>-</u>	
Total non-pooled investments	<u>5,711,619</u>	<u>5,711,619</u>	<u>-</u>	
Total investments	<u>\$ 14,497,376</u>	<u>\$ 14,249,900</u>	<u>\$ 247,476</u>	

The District has the following recurring fair value measurements as of June 30, 2019:

- \$440,652 of investments are valued using quoted market prices (Level 1 inputs)
- \$1,370,358 of investments are valued using a significant other observable (Level 2 inputs)

Independent School District No. 727
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

District Governmental Funds and Private Purpose Trust Fund	
Deposits - pooled (Note 3A)	\$ 6,525,107
Deposits - non pooled (Note 3A)	400,000
Deposits - non pooled (Note 3A)	790,760
Petty cash	6,573
Investments - pooled	8,785,757
Investments - non pooled	4,690,900
Investments - non pooled	<u>1,020,719</u>
Total deposits and investments	<u><u>\$ 22,219,816</u></u>
Statement of Net Position	
Cash and investments	\$ 20,390,918
Statement of Fiduciary Net Position	
Cash - Agency Fund	1,769
Cash - Scholarship Trust Fund	15,650
Cash and investments - OPEB	
Irrevocable Trust Fund	<u>1,811,479</u>
Total	<u><u>\$ 22,219,816</u></u>

Independent School District No. 727
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 784,389	\$ -	\$ -	\$ 784,389
Construction in progress	1,458,129	2,990,567	1,033,711	3,414,985
Total capital assets not being depreciated	<u>2,242,518</u>	<u>2,990,567</u>	<u>1,033,711</u>	<u>4,199,374</u>
Capital assets being depreciated				
Land improvements	7,083,333	552,104	1,385,932	6,249,505
Buildings	74,855,228	631,732	5,799	75,481,161
Machinery and equipment	5,502,431	463,326	955,444	5,010,313
Total capital assets being depreciated	<u>87,440,992</u>	<u>1,647,162</u>	<u>2,347,175</u>	<u>86,740,979</u>
Less accumulated depreciation for				
Land improvements	2,322,958	283,676	1,302,008	1,304,626
Buildings	31,706,382	1,601,174	3,823	33,303,733
Machinery and equipment	2,710,948	416,651	939,182	2,188,417
Total accumulated depreciation	<u>36,740,288</u>	<u>2,301,501</u>	<u>2,245,013</u>	<u>36,796,776</u>
Total capital assets being depreciated, net	<u>50,700,704</u>	<u>(654,339)</u>	<u>102,162</u>	<u>49,944,203</u>
Governmental activities, capital assets, net	<u>\$52,943,222</u>	<u>\$ 2,336,228</u>	<u>\$ 1,135,873</u>	<u>\$54,143,577</u>

Depreciation expense of for the year ended June 30, 2019, was charged to the following governmental functions:

Administration	\$ 22,565
District support services	4,097
Elementary and secondary regular instruction	1,142,362
Vocational instruction	234
Special education instruction	28,563
Instructional support services	210,488
Pupil support services	13,685
Sites and buildings	738,996
Food service	118,382
Community service	22,129
Total depreciation expense	<u>\$ 2,301,501</u>

Independent School District No. 727
Notes to Financial Statements

NOTE 4 – LONG TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
refunding bonds						
G.O. OPEB Bonds, Series 2009A	02/02/09	5.27%	\$ 2,960,000	02/01/20	\$ 370,000	\$ 370,000
G.O. School Building Refunding Bonds, Series 2010B	11/22/10	2.00%-3.33%	11,500,000	02/02/21	2,905,000	1,450,000
G.O. Refunding Bonds, Series 2012B	04/25/12	5.00%	8,730,000	02/01/25	8,730,000	-
G.O. School Building Refunding Bonds, Series 2015A	11/03/15	2.00%-4.00%	14,490,000	02/01/22	8,390,000	2,160,000
G.O. Facilities Maintenance Bonds, Series 2016A	02/18/16	3.00%-5.00%	5,120,000	02/01/31	4,450,000	310,000
G.O. School Building Bonds Series 2016B	07/27/16	2.00%-2.75%	4,000,000	02/01/33	4,000,000	-
G.O. School Building Bonds Series 2017A	02/16/17	2.50%-3.00%	5,080,000	02/01/33	5,080,000	-
G.O. Facilities Maintenance Bonds, Series 2017B	12/28/17	3.00%	3,900,000	02/01/33	3,830,000	105,000
G.O. Tax Abatement and Facilities Maintenance Bonds Series 2019A	02/14/19	3.00%-4.00%	3,750,000	02/01/35	3,750,000	-
Total G.O. bonds					41,505,000	4,395,000
Plus net bond premium					1,878,172	-
Net bonds payable					43,383,172	4,395,000
Capital leases			222,520	7/15/2021	166,025	54,304
Severance payable					386,508	7,801
Compensated absences payable					176,493	-
Total all long-term liabilities					<u>\$ 44,112,198</u>	<u>\$ 4,457,105</u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues or to pay OPEB. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2020	\$ 4,395,000	\$ 1,464,665	\$ 5,859,665
2021	4,300,000	1,324,113	5,624,113
2022	4,550,000	1,189,063	5,739,063
2023	3,650,000	968,862	4,618,862
2024	3,695,000	794,613	4,489,613
2025-2029	11,355,000	2,135,862	13,490,862
2030-2034	9,360,000	742,775	10,102,775
2035	200,000	6,000	206,000
Total	<u>\$ 41,505,000</u>	<u>\$ 8,625,953</u>	<u>\$ 50,130,953</u>

Independent School District No. 727
Notes to Financial Statements

NOTE 4 – LONG TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 41,985,000	\$ 3,750,000	\$ 4,230,000	\$ 41,505,000
Premium	2,122,541	132,991	377,360	1,878,172
Capital lease	222,520	-	56,495	166,025
Severance payable	379,805	21,851	15,148	386,508
Compensated absences payable	130,565	257,256	211,328	176,493
Total long-term liabilities	<u>\$ 44,840,431</u>	<u>\$ 4,162,098</u>	<u>\$ 4,890,331</u>	<u>\$ 44,112,198</u>

On April 23, 2018, the District entered into a lease purchase agreement with Apple Inc. for the acquisition of computer hardware. The capital lease obligation and corresponding equipment totaled \$222,520. The capital lease agreement includes annual principal and interest payments of \$57,457 for four years.

The future minimum lease obligation and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2020	\$ 57,457
2021	57,457
2022	57,458
Total minimum lease payments	<u>172,372</u>
Less amount representing interest	<u>(6,347)</u>
Present value of minimum lease payments	<u>\$ 166,025</u>

The assets purchased with the lease did not meet the threshold for capitalization and are not included in fixed assets, therefore there is no depreciation.

NOTE 5 – FUND BALANCES/NET POSITION

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

A. Fund Balances

Fund balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

Independent School District No. 727
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ -	\$ -	\$ -	\$ 35,087	\$ 35,087
Prepaid items	156,849	-	-	-	156,849
Total nonspendable	156,849	-	-	35,087	191,936
Restricted/reserved for					
Staff Development	98,744	-	-	-	98,744
Basic Skills Programs	112,332	-	-	-	112,332
Long-Term Facilities Maintenance	44,809	2,505,068	-	-	2,549,877
Area Learning Center	7,837	-	-	-	7,837
Operating Capital	221,461	-	-	-	221,461
Capital Projects Levy	108,221	-	-	-	108,221
Medical Assistance	92,243	-	-	-	92,243
Community Education	-	-	-	345,321	345,321
Early Childhood and Family Education	-	-	-	59,867	59,867
School Readiness	-	-	-	1,489	1,489
Community Service	-	-	-	1,424	1,424
Debt Service	-	-	1,304,670	97,401	1,402,071
Capital Projects	-	1,788,077	-	-	1,788,077
Food Service	-	-	-	175,370	175,370
Total restricted/reserved	685,647	4,293,145	1,304,670	680,872	6,964,334
Committed for					
Separation/retirement	596,778	-	-	-	596,778
Liberty shelter	6,702	-	-	-	6,702
Total committed	603,480	-	-	-	603,480
Assigned for					
Q Comp	129,791	-	-	-	129,791
STEM	27,500	-	-	-	27,500
Copier replacement	35,000	-	-	-	35,000
Curriculum materials	50,000	-	-	-	50,000
Athletics and activities	104,071	-	-	-	104,071
Student activities	118,135	-	-	-	118,135
Total assigned	464,497	-	-	-	464,497
Unassigned for general purposes					
	6,748,712	-	-	-	6,748,712
Total fund balances	<u>\$ 8,659,185</u>	<u>\$ 4,293,145</u>	<u>\$ 1,304,670</u>	<u>\$ 715,959</u>	<u>\$14,972,959</u>

Independent School District No. 727
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Codes 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subd. 1).

Restricted/Reserved for Basic Skills Programs – This balance represents resources available for the basic skills uses listed in *Minnesota Statutes* 126C.15, subd.1.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction and other projects under *Minnesota Statutes* 126C.10, subd. 14. All interest income attributable to the capital projects levy must be credited to this account.

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Independent School District No. 727
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted/Reserved for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Restricted/Reserved for Capital Projects – This balance represents available resources in the Capital Projects Fund for projects.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB), and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Committed for Liberty Shelter – This balance represents the remaining donation proceeds earmarked for a shelter on Liberty Elementary fields.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balance for unspent Q Comp, or quality compensation, tax levy, and state aids.

Assigned for STEM – This balance represents resources segregated from the unassigned fund balance for the STEM programming.

Assigned for Copier Replacement – This balance represents resources segregated from the unassigned fund balance for future replacement of copiers.

Assigned for Curriculum Materials – This balance represents resources segregated from the unassigned fund balance for the curriculum materials.

Assigned for Athletics and Activities – This balance represents resources segregated from unassigned fund balance for athletics and activity programming.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or received donations for specific purposes.

B. Restricted Net Position

Net position restricted for other purposes is comprised of the total positive restricted fund balances within the General Fund plus the total fund balances in the Community Service and Food Service Funds.

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2019, was (\$7,035,872). The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the Liability related to the pensions.

Teachers' Retirement Association

A. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members (except those teachers employed by the cities of Duluth and St. Paul Public Schools or Minnesota State Colleges and Universities. Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

B. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by *Minnesota Statute* and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers’ Retirement Association (Continued)

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2017, June 30, 2018, and June 30, 2019, were:

	<u>June 30, 2017</u>		<u>June 30, 2018</u>		<u>June 30, 2019</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.71%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

The following is a reconciliation of employer contributions in TRA’s CAFR “Statement of Changes in Fiduciary Net Position” to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 378,728
Deduct employer contributions not related to future contribution efforts	522
Deduct TRA's contributions not included in allocation	<u>(471)</u>
Total employer contributions	378,779
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Pension Allocations</i>	<u>\$ 414,367</u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers’ Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2018
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table on the following page.

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers’ Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

Asset Class	Allocations as of June 30, 2018	Final Target Allocation	Long Term Expected Real Rate of Return
Domestic stocks	33 %	36 %	5.10 %
International stocks	16	17	5.30
Private markets	25	25	5.90
Fixed income	16	20	0.75
Treasuries	8	0	0.50
Unallocated cash	2	2	0.00
Total	100 %	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2019, the District reported a liability of \$16,185,972 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District proportionate share was 0.2577% at the end of the measurement period and 0.2607% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 16,185,972
State's proportionate share of the net pension liability associated with the District	1,520,654

For the year ended June 30, 2019, the District recognized pension expense of (\$7,137,883). It recognized (\$1,061,318) as an increase to this pension expense for the support provided by direct aid.

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers’ Retirement Association (Continued)

F. Net Pension Liability (Continued)

On June 30, 2019, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 200,019	\$ 329,770
Net difference between projected and actual earnings on plan investment	-	1,254,917
Changes of assumptions	21,034,816	27,666,202
Changes in proportion	245,569	955,362
Contributions to TRA subsequent to the measurement date	1,163,502	-
Total	\$ 22,643,906	\$ 30,206,251

\$1,163,502 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2020	\$ 1,333,851
2021	854,968
2022	(183,557)
2023	(6,256,968)
2024	(4,474,141)
Total	\$ (8,725,847)

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers’ Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%).

District Proportionate Share of NPL		
1% decrease (6.50%)	Current (7.50%)	1% increase (8.50%)
\$ 25,687,072	\$ 16,185,972	\$ 8,347,627

The District’s proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA’s total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

Public Employees’ Retirement Association

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA’s defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Plan Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2019. The District's contributions to the General Employees Plan for the year ended June 30, 2019, were \$425,368. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Pension Costs

General Employees Plan Pension Costs

At June 30, 2019, the District reported a liability of \$4,676,618 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$153,463. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportionate share was 0.0843% at the end of the measurement period and 0.0843% for the beginning of the period.

School's proportionate share of net pension liability	\$ 4,676,618
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>153,463</u>
Total	<u><u>\$ 4,830,081</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$102,011 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$35,787 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the sources on the following page:

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Plan Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 123,782	\$ 143,840
Changes in actuarial assumptions	471,111	525,469
Difference between projected and actual investments earnings	-	441,572
Changes in proportion	-	225,617
District's contributions to PERA subsequent to the measurement date	425,368	-
Total	\$ 1,020,261	\$ 1,336,498

\$425,368 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2020	\$ 68,297
2021	(332,824)
2022	(379,469)
2023	(97,609)
Total	\$ (741,605)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

Independent School District No. 727
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36 %	5.10 %
International stock	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
Total	100 %	

F. Discount Rates

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 7,600,104	\$ 4,676,618	\$ 2,263,365

**Independent School District No. 727
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Blue Cross Blue Shield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefit Provided

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

C. Members

As of June 30, 2019, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Active employees	<u>354</u>
Total	<u><u>372</u></u>

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2019, the District contributed \$89,079 to the plan.

Independent School District No. 727
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	3.40%, net of investment expense long-term
Salary increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.50% in 2018 grading to 5.00% over 6 years
 Mortality Assumption	 RP 2014 white collar mortality tables with MP 2017 generational improvement scale

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2018 – June 30, 2019.

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The expected long-term investment return was changed from 3.6% to 3.4%.
- The discount rate was changed from 3.5% to 3.2%.

The long-term expected rate of return on OPEB plan investments was determined based on the plan's target investment allocation along with the long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	79 %	2.5 %
Domestic equity	20	7.0
Cash	1	0.5
 Total	 <u>100 %</u>	 <u>3.4 %</u>

Independent School District No. 727
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The details of the investments and the investment policy are described in Note 2. of the District's financial statements. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investments expenses, was 3.40%.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 3.2%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in Net Other Post Employment Benefit Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2018	\$ 3,159,589	\$ 1,766,584	\$ 1,393,005
Changes for the year			
Service cost	172,521	-	172,521
Interest	113,540	-	113,540
Assumption changes	72,013	-	72,013
Employer contributions	-	89,079	(89,079)
Projected investment income	-	60,060	(60,060)
Differences between expected and actual economic experience	(521,316)	(774)	(520,542)
Benefit payments	(177,734)	(177,734)	-
Administrative expense	-	(250)	250
Other charges	-	-	-
Net changes	(340,976)	(29,619)	(311,357)
Balances at June 30, 2019	<u>\$ 2,818,613</u>	<u>\$ 1,736,965</u>	<u>\$ 1,081,648</u>
Plan fiduciary net position as a percentage of the total OPEB liability			61.62%

Independent School District No. 727
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. Other Post Employment Benefit Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 3.2% as well as the liability measured using 1 percent lower and 1 percent higher than the current discount rate.

	1% decrease (2.2%)	Current (3.2%)	1% increase (4.2%)
Net OPEB Liability	\$ 1,245,641	\$ 1,081,648	\$ 922,108

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percent lower and 1 percent higher than the current healthcare cost trend rates. The decrease in healthcare cost trend rates is over seven years.

	1% decrease (5.50% decreasing to 4.0%)	Current (6.50% decreasing to 5.0%)	1% increase (7.50% decreasing to 6.0%)
Net OPEB Liability	\$ 842,793	\$ 1,081,648	\$ 1,361,384

I. Other Post Employment Benefit Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Post Employment Benefit

For the year ended June 30, 2019, the District recognized OPEB expense of \$141,890. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability changes	\$ -	\$ 446,842
Assumption changes	61,725	66,615
Net difference between projected and actual earnings on OPEB plan investments	-	13,060
Total	\$ 61,725	\$ 526,517

**Independent School District No. 727
Notes to Financial Statements**

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. Other Post Employment Benefit Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Post Employment Benefit (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2020	\$ (84,361)
2021	(84,360)
2022	(77,023)
2023	(77,356)
2024	(77,505)
Thereafter	<u>(64,187)</u>
 Total	 <u><u>\$ (464,792)</u></u>

J. Payable from the OPEB Plan

At June 30, 2019, the OPEB plan reported a payable of \$953811 to the District. The amount is reported as a payable on the OPEB Trust Fund Statement of Fiduciary Net Position.

NOTE 8 – JOINT POWERS AGREEMENT

The District entered into a joint powers agreement in February 1998 between and among eight other area independent school districts and Wright Technical Center No. 996 (WTC), a cooperative center for vocational education, to finance the acquisition and betterment of an addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leasing levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing capital costs for the addition based on the current cost allocation formula.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.

Independent School District No. 727
Notes to Financial Statements

NOTE 9 – COMMITMENTS

Description	Contract Amount	Expended through June 30, 2018	Remaining Commitment
Independence Roof - East	\$ 1,514,898	\$ 377,883	\$ 1,137,015
Independence Roof - West	1,077,500	492,700	584,800
2019 Parking Replacement & Improvement	2,295,996	742,061	1,553,935
2019 Parking Replacement & Improvement Engineering	60,000	12,000	48,000
Total	<u>\$ 4,948,394</u>	<u>\$ 1,624,644</u>	<u>\$ 3,323,750</u>

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 727
Schedule of Changes in Net OPEB Liability
and Related Ratios

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB Liability			
Service cost	\$ 172,521	\$ 180,473	\$ 192,545
Interest	113,540	94,654	93,888
Changes of assumptions	72,013	(93,263)	-
Differenced between expected and actual experience	(521,316)	-	-
Benefit payments	<u>(177,734)</u>	<u>(209,937)</u>	<u>(285,466)</u>
Net change in total OPEB liability	<u>(340,976)</u>	<u>(28,073)</u>	<u>967</u>
Beginning of year	<u>3,159,589</u>	<u>3,187,662</u>	<u>3,186,695</u>
End of year	<u>\$ 2,818,613</u>	<u>\$ 3,159,589</u>	<u>\$ 3,187,662</u>
Plan Fiduciary Net Pension (FNP)			
Employer contributions	\$ 89,079	\$ 112,897	\$ 152,807
Projected investment income	59,286	64,821	43,551
Differences between expected and actual experience	-	(1,668)	36,699
Benefit payments	(177,734)	(209,937)	(285,466)
Administrative expense	<u>(250)</u>	<u>(250)</u>	<u>(250)</u>
Net change in plan fiduciary net position	<u>(29,619)</u>	<u>(34,137)</u>	<u>(52,659)</u>
Beginning of year	<u>1,766,584</u>	<u>1,800,721</u>	<u>1,853,380</u>
End of year	<u>\$ 1,736,965</u>	<u>\$ 1,766,584</u>	<u>\$ 1,800,721</u>
Net OPEB liability	<u>\$ 1,081,648</u>	<u>\$ 1,393,005</u>	<u>\$ 1,386,941</u>
Plan FNP as a percentage of the total OPEB liability	61.62%	55.91%	56.49%
Covered-employee payroll	\$ 19,963,006	\$ 19,228,177	\$ 18,668,133
Net OPEB liability as a percentage of covered-employee payroll	5.42%	7.24%	7.43%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 727
Schedule of Employer Contributions - OPEB

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Actuarially determined contribution	\$ 89,079	\$ 112,897	\$ 152,807
Contributions in relation to the actuarially determined contribution	<u>89,079</u>	<u>112,897</u>	<u>152,807</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 19,963,006</u>	<u>\$ 19,228,177</u>	<u>\$ 18,668,133</u>
Contributions as a percentage of covered-employee payroll	0.45%	0.59%	0.82%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 727
Schedule of Investment Returns

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	3.40%	3.50%	4.30%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 727
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0950%	\$ 4,462,624	\$ -	\$ -	\$ 4,986,276	89.5%	78.7%
2015	0.0919%	4,762,735	-	-	5,459,160	87.2%	78.2%
2016	0.0889%	7,218,239	94,209	7,312,448	5,513,720	130.9%	68.9%
2017	0.0843%	5,381,656	67,686	5,449,342	5,432,067	99.1%	75.9%
2018	0.0843%	4,676,618	153,463	4,830,081	5,667,080	82.5%	79.5%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years TRA Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2996%	\$ 13,805,352	\$ 971,259	\$ 14,776,611	\$ 13,677,649	100.9%	81.5%
2015	0.2673%	16,535,149	2,028,282	18,563,431	13,729,307	120.4%	76.8%
2016	0.2592%	61,825,385	6,205,287	68,030,672	13,481,080	458.6%	44.9%
2017	0.2607%	52,040,449	5,030,565	57,071,014	14,031,107	370.9%	51.6%
2018	0.2577%	16,185,972	1,520,654	17,706,626	14,239,253	113.7%	78.1%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 727
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 361,505	\$ 361,505	\$ -	\$ 4,986,276	7.25%
2015	409,437	409,437	-	5,459,160	7.50%
2016	413,529	413,529	-	5,513,720	7.50%
2017	407,405	407,405	-	5,432,067	7.50%
2018	425,031	425,031	-	5,667,080	7.50%
2019	425,368	425,368	-	5,671,573	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions
TRA Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 957,435	\$ 957,435	\$ -	\$ 13,677,649	7.00%
2015	1,029,698	1,029,698	-	13,729,307	7.50%
2016	1,011,081	1,011,081	-	13,481,080	7.50%
2017	1,052,333	1,052,333	-	14,031,107	7.50%
2018	1,067,944	1,067,944	-	14,239,253	7.50%
2019	1,163,502	1,163,502	-	15,090,817	7.71%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 727
Notes to the Required Supplementary Information

TRA Retirement Fund

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.50% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Independent School District No. 727
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Independent School District No. 727
Notes to the Required Supplementary Information

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Independent School District No. 727
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Post Employment Health Care Plan

2018 Changes

For the fiscal year ended June 30, 2018, the expected long-term investment return was changed from 2.35% to 3.60% and the discount rate was changed from 2.90% to 3.50%.

2019 Changes

Changes in Actuarial Assumptions:

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The expected long-term investment return was changed from 3.6% to 3.4%.
- The discount rate was changed from 3.5% to 3.2%.

SUPPLEMENTRY INFORMATION

Independent School District No. 727
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			Total Nonmajor Funds
	Food Service	Community Service	Other Post Employment Benefits Debt Service Fund	
Assets				
Cash and investments (including cash equivalents)	\$ 199,635	\$ 685,670	\$ 294,518	\$ 1,179,823
Current property taxes receivable	-	181,567	185,843	367,410
Delinquent property taxes receivable	-	5,695	7,932	13,627
Accounts receivable	23,297	34,780	-	58,077
Due from Department of Education	-	33,964	62	34,026
Due from Federal Government through Department of Education	18,188	-	-	18,188
Due from other Minnesota school districts	-	9,018	-	9,018
Due from other governmental units	-	11,197	3,669	14,866
Inventory	35,087	-	-	35,087
	<u>\$ 276,207</u>	<u>\$ 961,891</u>	<u>\$ 492,024</u>	<u>\$ 1,730,122</u>
Liabilities				
Accounts payable	\$ 28,923	\$ 25,084	\$ -	\$ 54,007
Salaries and benefits payable	818	112,389	-	113,207
Due to other governmental units	-	395	-	395
Unearned revenue	36,009	32,445	-	68,454
Total liabilities	<u>65,750</u>	<u>170,313</u>	<u>-</u>	<u>236,063</u>
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	-	5,695	7,932	13,627
Property taxes levied for subsequent year's expenditures	-	377,782	386,691	764,473
Total deferred inflows of resources	<u>-</u>	<u>383,477</u>	<u>394,623</u>	<u>778,100</u>
Fund Balances				
Nonspendable	35,087	-	-	35,087
Restricted	175,370	408,101	97,401	680,872
Total fund balances	<u>210,457</u>	<u>408,101</u>	<u>97,401</u>	<u>715,959</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 276,207</u>	<u>\$ 961,891</u>	<u>\$ 492,024</u>	<u>\$ 1,730,122</u>

Independent School District No. 727
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2019

	<u>Special Revenue Funds</u>			Total Nonmajor Funds
	<u>Food Service</u>	<u>Community Service</u>	<u>Other Post Employment Benefits Debt Service Fund</u>	
Revenues				
Local property taxes	\$ -	\$ 365,870	\$ 386,297	\$ 752,167
Other local and county revenues	5,145	1,703,504	5,203	1,713,852
Revenue from state sources	95,741	293,731	623	390,095
Revenue from federal sources	592,810	-	-	592,810
Sales and other conversion of assets	865,343	11,708	-	877,051
Total revenues	<u>1,559,039</u>	<u>2,374,813</u>	<u>392,123</u>	<u>4,325,975</u>
Expenditures				
Current				
Food service	1,536,519	-	-	1,536,519
Community education and services	-	2,418,531	-	2,418,531
Capital outlay	-	13,218	-	13,218
Debt service				
Principal	-	-	350,000	350,000
Interest and fiscal charges	-	-	38,419	38,419
Total expenditures	<u>1,536,519</u>	<u>2,431,749</u>	<u>388,419</u>	<u>4,356,687</u>
Excess of revenues over (under) expenditures	22,520	(56,936)	3,704	(30,712)
Fund Balances				
Beginning of year	<u>187,937</u>	<u>465,037</u>	<u>93,697</u>	<u>746,671</u>
End of year	<u>\$ 210,457</u>	<u>\$ 408,101</u>	<u>\$ 97,401</u>	<u>\$ 715,959</u>

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 3,963,813	\$ 3,936,303	\$ 3,975,596	\$ 39,293
Other local and county revenues	665,189	1,142,747	1,354,599	211,852
Revenue from state sources	27,891,335	27,962,878	28,288,383	325,505
Revenue from federal sources	529,347	573,411	417,371	(156,040)
Sales and other conversion of assets	78,050	95,975	79,008	(16,967)
Total revenues	<u>33,127,734</u>	<u>33,711,314</u>	<u>34,114,957</u>	<u>403,643</u>
Expenditures				
Current				
Administration				
Salaries	903,403	897,066	898,164	1,098
Employee benefits	300,302	304,468	296,468	(8,000)
Purchased services	18,230	25,321	21,714	(3,607)
Supplies and materials	5,393	4,067	4,772	705
Capital expenditures	1,000	-	-	-
Other expenditures	63,058	26,427	25,973	(454)
Total administration	<u>1,291,386</u>	<u>1,257,349</u>	<u>1,247,091</u>	<u>(10,258)</u>
District support services				
Salaries	662,599	637,425	633,255	(4,170)
Employee benefits	294,553	290,885	232,281	(58,604)
Purchased services	157,995	163,785	136,311	(27,474)
Supplies and materials	4,725	7,935	4,099	(3,836)
Capital expenditures	44,000	4,000	-	(4,000)
Other expenditures	45,525	(475)	(3,331)	(2,856)
Total district support services	<u>1,209,397</u>	<u>1,103,555</u>	<u>1,002,615</u>	<u>(100,940)</u>
Elementary and secondary				
Regular instruction				
Salaries	10,197,004	10,192,962	10,182,569	(10,393)
Employee benefits	3,560,151	3,514,466	3,480,284	(34,182)
Purchased services	693,400	622,691	726,553	103,862
Supplies and materials	700,999	898,812	898,662	(150)
Capital expenditures	211,714	209,239	169,874	(39,365)
Other expenditures	54,046	34,212	31,908	(2,304)
Total elementary and secondary regular instruction	<u>15,417,314</u>	<u>15,472,382</u>	<u>15,489,850</u>	<u>17,468</u>

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures				
Current (continued)				
Vocational education instruction				
Salaries	\$ 248,065	\$ 250,721	\$ 237,889	\$ (12,832)
Employee benefits	93,596	94,328	88,376	(5,952)
Purchased services	188,608	166,757	166,752	(5)
Supplies and materials	33,000	32,414	32,414	-
Total vocational education instruction	<u>563,269</u>	<u>544,220</u>	<u>525,431</u>	<u>(18,789)</u>
Special education instruction				
Salaries	4,560,250	4,580,237	4,395,837	(184,400)
Employee benefits	1,931,366	1,953,120	1,878,180	(74,940)
Purchased services	270,895	276,855	250,697	(26,158)
Supplies and materials	37,800	33,869	22,969	(10,900)
Capital expenditures	-	3,432	3,432	-
Other expenditures	-	14,739	-	(14,739)
Total special education instruction	<u>6,800,311</u>	<u>6,862,252</u>	<u>6,551,115</u>	<u>(311,137)</u>
Instructional support services				
Salaries	1,415,303	1,362,345	1,342,185	(20,160)
Employee benefits	457,652	451,591	468,914	17,323
Purchased services	78,466	77,992	63,493	(14,499)
Supplies and materials	267,377	406,906	400,476	(6,430)
Capital expenditures	234,442	168,745	83,761	(84,984)
Other expenditures	182,835	46,404	48,018	1,614
Total instructional support services	<u>2,636,075</u>	<u>2,513,983</u>	<u>2,406,847</u>	<u>(107,136)</u>
Pupil support services				
Salaries	800,761	817,675	802,281	(15,394)
Employee benefits	287,812	298,261	291,215	(7,046)
Purchased services	1,816,403	1,885,279	1,845,118	(40,161)
Supplies and materials	30,059	22,266	20,672	(1,594)
Other expenditures	4,050	6,064	5,749	(315)
Total pupil support services	<u>2,939,085</u>	<u>3,029,545</u>	<u>2,965,035</u>	<u>(64,510)</u>

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures				
Current (continued)				
Sites and buildings				
Salaries	\$ 1,128,468	\$ 1,111,394	\$ 1,115,969	\$ 4,575
Employee benefits	502,755	485,122	468,904	(16,218)
Purchased services	1,439,488	1,664,036	1,708,270	44,234
Supplies and materials	174,845	202,198	201,203	(995)
Capital expenditures	65,000	91,205	124,457	33,252
Other expenditures	10,843	10,578	11,153	575
Total sites and buildings	<u>3,321,399</u>	<u>3,564,533</u>	<u>3,629,956</u>	<u>65,423</u>
Fiscal and other fixed cost programs				
Purchased services	<u>154,086</u>	<u>154,086</u>	<u>152,677</u>	<u>(1,409)</u>
Community service				
Purchased services	<u>-</u>	<u>-</u>	<u>26,532</u>	<u>26,532</u>
Total community service	<u>-</u>	<u>-</u>	<u>26,532</u>	<u>26,532</u>
Debt Service				
Principal	56,495	56,495	56,495	-
Interest and fiscal charges	963	963	963	-
Total debt service	<u>57,458</u>	<u>57,458</u>	<u>57,458</u>	<u>-</u>
Total expenditures	<u>34,389,780</u>	<u>34,559,363</u>	<u>34,054,607</u>	<u>(504,756)</u>
Excess of revenues under expenditures	(1,262,046)	(848,049)	60,350	908,399
Other Financing Sources				
Proceeds from sale of capital assets	45,000	64,040	64,040	-
Insurance recovery	-	193,981	182,967	(11,014)
Total other financing sources (uses)	<u>45,000</u>	<u>258,021</u>	<u>247,007</u>	<u>(11,014)</u>
Net change in fund balances	<u>\$ (1,217,046)</u>	<u>\$ (590,028)</u>	307,357	<u>\$ 897,385</u>
Fund Balance				
Beginning of year			<u>8,351,828</u>	
End of year			<u>\$ 8,659,185</u>	

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local and county revenues	\$ 2,200	\$ 2,200	\$ 5,145	\$ 2,945
Revenue from state sources	89,873	95,051	95,741	690
Revenue from federal sources	619,534	583,390	592,810	9,420
Sales and other conversion of assets	903,440	853,794	865,343	11,549
Total revenues	<u>1,615,047</u>	<u>1,534,435</u>	<u>1,559,039</u>	<u>24,604</u>
Expenditures				
Current				
Food service	1,612,947	1,559,886	1,536,519	(23,367)
Capital outlay				
Food service	2,100	2,100	-	(2,100)
Total expenditures	<u>1,615,047</u>	<u>1,561,986</u>	<u>1,536,519</u>	<u>(25,467)</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (27,551)</u>	22,520	<u>\$ 50,071</u>
Fund Balance				
Beginning of year			<u>187,937</u>	
End of year			<u>\$ 210,457</u>	

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 361,940	\$ 361,940	\$ 365,870	\$ 3,930
Other local and county revenues	1,666,222	1,651,587	1,703,504	51,917
Revenue from state sources	286,579	286,515	293,731	7,216
Sales and other conversion of assets	12,100	14,820	11,708	(3,112)
Total revenues	<u>2,326,841</u>	<u>2,314,862</u>	<u>2,374,813</u>	<u>59,951</u>
Expenditures				
Current				
Community education and services	2,344,185	2,375,268	2,418,531	43,263
Capital outlay				
Community education and services	27,210	17,320	13,218	(4,102)
Total expenditures	<u>2,371,395</u>	<u>2,392,588</u>	<u>2,431,749</u>	<u>39,161</u>
Excess of revenues under expenditures	<u>\$ (44,554)</u>	<u>\$ (77,726)</u>	(56,936)	<u>\$ 20,790</u>
Fund Balance				
Beginning of year			<u>465,037</u>	
End of year			<u>\$ 408,101</u>	

Independent School District No. 727
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2019

	Audit	UFARS	Audit- UFARS		Audit	UFARS	Audit- UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 34,297,924	\$ 34,297,921	3	Total revenue	\$ 101,331	\$ 101,330	1
Total expenditures	34,054,607	34,054,610	(3)	Total expenditures	4,482,963	4,482,963	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	156,849	156,849	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	98,744	98,744	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	-	-	-	409 Alternative Facility Program	-	-	-
407 Capital Projects Levy	108,221	108,221	-	467 LTFM	2,505,068	2,505,068	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
409 Alternative Facility Program	-	-	-	464 Restricted fund balance	1,788,077	1,788,076	1
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-	07 Debt Service Fund			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ 5,446,443	\$ 5,446,440	3
424 Operating Capital	221,461	221,461	-	Total expenditures	5,347,103	5,347,103	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable fund balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
434 Area Learning Center	7,837	7,837	-	425 Bond refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	433 Maximum effort loan aid	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted fund balance	1,304,670	1,304,669	1
441 Basic Skills Programs	112,332	112,332	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned fund balance	-	-	-
448 Achievement and Integration	-	-	-	08 Trust Fund			
449 Safe School Crime	-	-	-	Total revenue	\$ 25,600	\$ 25,600	-
450 Transition to Pre-kindergarten	-	-	-	Total expenditures	9,950	9,950	-
451 QZAB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Net position	15,650	15,650	-
453 Unfunded Severance and Retirement Levy	-	-	-	20 Internal Service Fund			
459 Basic Skills Extended Time	-	-	-	Total revenue	\$ -	\$ -	-
467 Long-term Facilities Maintenance	44,809	44,809	-	Total expenditures	-	-	-
472 Medical Assistance	92,243	92,243	-	<i>Unassigned:</i>			
475 Title VII - Impact Aid	-	-	-	422 Net position	-	-	-
476 Payments in Lieu of Taxes	-	-	-	25 OPEB Revocable Trust			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	-
464 Restricted fund balance	-	-	-	Total expenditures	-	-	-
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for separation	596,778	596,778	-	422 Net position	-	-	-
461 Committed for separation	6,702	6,702	-	45 OPEB Irrevocable Trust			
<i>Assigned:</i>				Total revenue	\$ 62,956	\$ 62,956	-
462 Assigned fund balance	464,497	464,497	-	Total expenditures	92,575	92,576	(1)
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned fund balance (net position)	6,748,712	6,748,707	5	422 Net position	1,736,965	1,736,965	-
02 Food Services Fund				47 OPEB Debt Service			
Total revenue	\$ 1,559,039	\$ 1,559,041	(2)	Total revenue	\$ 392,123	\$ 392,123	-
Total expenditures	1,536,519	1,536,519	-	Total expenditures	388,419	388,419	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	35,087	35,087	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted:</i>			
452 OPEB liabilities not held in trust	-	-	-	464 Restricted fund balance	97,401	97,401	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	175,370	175,370	-	463 Unassigned fund balance	-	-	-
<i>Unassigned:</i>				04 Community Service Fund			
463 Unassigned fund balance	-	-	-	Total revenue	\$ 2,374,813	\$ 2,374,811	2
04 Community Service Fund				Total expenditures	2,431,749	2,431,746	3
Total revenue	\$ 2,374,813	\$ 2,374,811	2	<i>Capital lease payable</i>			
Total expenditures	2,431,749	2,431,746	3	460 Nonspendable fund balance	-	-	-
<i>Capital lease payable</i>				<i>Restricted/reserved:</i>			
460 Nonspendable fund balance	-	-	-	426 \$25 Taconite	-	-	-
<i>Restricted/reserved:</i>				431 Community Education	345,321	345,321	-
426 \$25 Taconite	-	-	-	432 ECFE	59,867	59,867	-
431 Community Education	345,321	345,321	-	440 Teacher Development and Evaluation	-	-	-
432 ECFE	59,867	59,867	-	444 School Readiness	1,489	1,489	-
440 Teacher Development and Evaluation	-	-	-	447 Adult Basic Education	-	-	-
444 School Readiness	1,489	1,489	-	452 OPEB Liabilities not Held in Trust	-	-	-
447 Adult Basic Education	-	-	-	<i>Restricted:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	464 Restricted fund balance	1,424	1,425	(1)
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	1,424	1,425	(1)	463 Unassigned fund balance	-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

Independent School District No. 727
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast	10.553	\$ 62,173
Type A Lunch and Commodities Programs	10.555	376,953
Commodities (Noncash)	10.555	110,939
Summer Food Service	10.559	42,745
Total Child Nutrition Cluster and U.S. Department of Agriculture		592,810
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	234,301
Title IV, Part A - Safe and Drug Free Schools	84.424	3,045
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	62,413
Through Independent School District No. 882		
Special Education	84.027	117,612
Total U.S. Department of Education		417,371
 Total Federal Expenditures		\$ 1,010,181

Independent School District No. 727
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, Audit Finding 2019-001.

Compliance and Other Matters

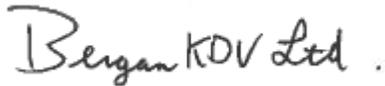
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Findings

The District's response to the finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Minneapolis, Minnesota
November 8, 2019

**Report on Compliance for Each Major Federal Program and on Internal Control
over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 727, Big Lake, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 727 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

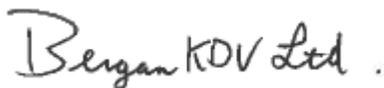
Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Minneapolis, Minnesota
November 8, 2019

**Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified	Yes, Audit Finding 2019-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies)	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	10.553, 10.555, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	Yes

**Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2019-001

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2019, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. Although this meets the definition of a "significant deficiency," it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

Cash Disbursement Process

- The Accounts Payable Specialist and/or the Accountant matches purchase orders to invoices, enters invoices into SMART, runs, prints, and mails checks. The Director of Business Services reviews check stubs and invoices if the Accountant has input invoices in the Accounts Payable Specialist's absence.

Cash Receipt

- The Administrative Assistant at each building can receipt cash, prepare deposit slips, and reconcile the deposit.
- The Community Education Director and Administrative Assistant can collect money, prepare the deposit, and also can perform the reconciliation to the deposit.

Payroll

- The Payroll Specialist reviews and inputs timesheets, calculates payroll, and generates payroll and also has access to change pay rates in the system. The Compensation Coordinator reviews payroll runs.

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

**Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2019-001 (Continued)

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District has implemented mitigating controls to overcome the lack of segregation of accounting duties. Examples are provided on the following page for specific areas in which the District was cited.

A. Cash Disbursement Process

The Director of Business Services or Accountant reviews invoices with check stubs and purchase orders for unusual transactions or alterations. The Director of Business Services or Accountant also reviews for supervisor approval and proper documentation. The check stubs are initialed by the Director of Business Services or Accountant indicating such review has taken place.

On a monthly basis, detailed budget reports are sent to building and program administrators for review. In addition, the Director of Business Services currently reviews detailed budgeted line items on at least a quarterly basis for significant variances.

B. Cash Receipt Process

The District operates on a decentralized cash receipts process in which each building reconciles and prepares the deposits for the bank. Copies of the deposit slips are forwarded to the District Accountant, who ensures all deposits are properly credited to the District bank account during the bank reconciliation process. The Director of Business Services and building and administrator budget managers monitor receipts and revenue for significant fluctuations or unusual variations.

**Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2019-001 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (CONTINUED)

1. Actions Planned in Response to Finding

C. Payroll Process

The District Accountant posts the payroll to the general ledger and on a quarterly basis, reviews salary and benefit line item budgets with expected results based on the staffing budget. The District Accountant also reconciles all payroll liability accounts on a monthly basis and variations or fluctuations are communicated to the Payroll Specialist or Compensation Coordinator.

2. Official Responsible for Ensuring CAP

Angie Manuel, Director of Business Services, is the official responsible for ensuring corrective action of the deficiency.

3. Planned Completion Date for CAP

The planned completion date is ongoing.

4. Plan to Monitor Completion of CAP

The School Board will be monitoring the corrective action plan.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs.

Minnesota Legal Compliance**Independent Auditor's Report**

To the School Board
Independent School District No. 727
Big Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, and have issued our report thereon dated November 8, 2019.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Minneapolis, Minnesota
November 8, 2019